BC Securities Commission
Service Plan, 2011 – 2014

BC Securities Commission Service Plan

This Service Plan sets out our strategy for the next three years, beginning April 1, 2011. Copies are available on the BCSC website at www.bcsc.bc.ca (*About the Commission*), or by phoning or emailing our public inquiries group.

Each BCSC division has an operating plan that describes how it will implement the strategies in the Service Plan to address identified risks. Copies of these operating plans are also available by phoning or emailing our public inquiries group:
Direct: 604-899-6854 Toll-free: 1-800-373-6393 Email: inquiries@bcsc.bc.ca

The BCSC's office location and mailing address are:

BC Securities Commission
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Vancouver, BC V7Y 1L2

Glossary

BC	British Columbia
CSA	Canadian Securities Administrators
CSRA	Canadian Securities Regulatory Authority
CSTO	Canadian Securities Transition Office
IIROC	Investment Industry Regulatory Organization of Canada
IT	Information Technology
IMET	Integrated Market Enforcement Team
MFDA	Mutual Fund Dealers Association
NI	National Instrument
NRD	The National Registration Database
OM	Offering Memorandum
OTCBB	Over-the-Counter Bulletin Board
RCMP	Royal Canadian Mounted Police
SEDAR	System for Electronic Document Analysis and Retrieval
SEDI	System for Electronic Disclosure by Insiders
SRO	Self-Regulatory Organization
TSX	Toronto Stock Exchange
TSX-V	TSX Venture Exchange

Accountability statement – BCSC Chair to Minister

Honourable Colin Hansen
Minister of Finance
Parliament Buildings
Victoria, BC V8V 1X4

Dear Minister:

On behalf of the Board of Directors and staff at the British Columbia Securities Commission, I am pleased to submit the BCSC's Service Plan for fiscal years 2011/12 – 2013/14.

The BCSC is the independent provincial government agency responsible for administering the *Securities Act*. We protect and promote the public interest by fostering:
• A securities market that is fair and warrants public confidence
• A dynamic and competitive securities industry that provides investment opportunities and access to capital

Our plan
This is a three-year plan, which takes effect April 1, 2011. It identifies three strategic risks—illegal distributions and fraud, non-compliance in exempt market financing, and inability to investigate market misconduct by traders in offshore secrecy jurisdictions. It describes eight strategies that strengthen our ability to achieve our mission and strategic goals.

We continue to organize our work under four goals:
• Foster a culture of compliance
• Act decisively against misconduct
• Educate investors
• Advance cost-effective regulation

External factors
Global economic environment
Internationally, financial regulators are developing and implementing reform proposals to deal with a myriad of issues raised in the wake of the credit crisis. On matters related to securities regulation, we are working with the Canadian Securities Administrators and internationally through The International Organization of Securities Commissions.

In the past year, the CSA has consulted extensively with industry about several issues targeted internationally for a regulatory response, including the regulation of credit rating agencies, over-the-counter derivatives trading, and increasing opacity in market trading. CSA will be developing detailed proposals for consideration. Proposals will have to be consistent with reforms adopted internationally, yet be appropriate for Canadian markets.

The challenge will be to ensure that the regulatory response effectively manages the risks without stifling innovation and unduly impairing market efficiency.

National regulation

Our government continues to support the development of a national regulator on the expectation that it will result in a regulatory regime better than what we have now and, most importantly, provide a healthy regulatory environment for the venture market.

Small and mid-sized private and public companies are vital to the BC economy; 98% of BC businesses are small. They generate about a third of BC's gross domestic product and they are responsible for more than 40% of the total value of goods exported from the province.

This sector is also important to the national economy—a significant number of Canada's successful large companies were started and financed as new ventures in BC.

Over the years, the BCSC has developed expertise in venture market regulation. We have maintained the integrity of our capital markets and kept the costs of regulation at a level that allows the successful financing of venture companies. These strengths must be preserved in the proposed national regulator.

BC is participating in the federal government's initiative in developing a plan for a national regulator, and the Commission is engaged in this process.

Accountability statement

I directed the preparation of this plan, and the Board approved it, in accordance with the *Budget Transparency and Accountability Act* and BC Reporting Principles. I am accountable for its contents, including what has been included and how it has been reported. The performance measures are consistent with the BCSC's mandate and goals, and focus on aspects critical to the BCSC's performance. We will use the same measures as in fiscal year 2011. The performance targets have been determined in view of the Commission's operating environment, forecast conditions, risk assessment, and past performance.

The plan is consistent with government's strategic priorities and fiscal plan. We have considered all significant assumptions, policy decisions, events, and identified risks as of January 6, 2011.

I am accountable for ensuring the BCSC achieves the objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

Brenda M. Leong
Chair and Chief Executive Officer

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Organizational overview

BCSC vision

To play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

Mission

The BCSC is the independent provincial government agency responsible for regulating capital markets in British Columbia (BC) through the administration of the *Securities Act*. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

Our values of integrity, accountability, and service guide our commitment to appropriate, effective, and flexible regulation. This commitment allows us to keep pace with quickly evolving capital market changes.

Enabling legislation

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

- We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our annual report and audited financial statements. We submit our three-year Service Plan to the provincial Treasury Board as required by the *Securities Act* and the *Budget Transparency and Accountability Act*.

Shareholder's Letter of Expectations

The provincial government sets out the following specific expectations of the BCSC in the Shareholder's Letter of Expectations:

- Assist the provincial government with the federal government's development of a national securities regulatory framework (National Regulator Initiative) for consideration by governments
- Work with other provinces and territories to strengthen the Canadian regulatory framework and investor protection
- Make best efforts to streamline, simplify, and harmonize securities laws with other provinces and territories
- Work on issues arising under the Passport Memorandum of Understanding Regarding Securities Regulation
- Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010

The Shareholder's Letter of Expectations is available on our public website at www.bcsc.bc.ca *(About the Commission)*.

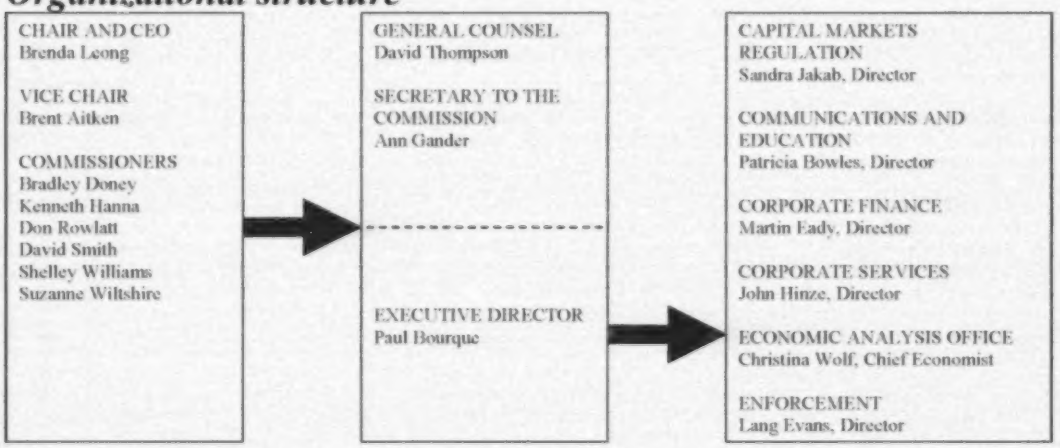
Corporate governance

The BCSC is governed by a board of up to 11 (currently 8) commissioners appointed under the *Securities Act*. The commissioners have four categories of responsibilities. They:

- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance
- Oversee the Self-Regulatory Organizations (SROs), exchanges, and other marketplaces
- Act as adjudicators on enforcement matters brought under the *Securities Act* and applications for review of decisions made by SROs and exchanges
- Act as the BCSC's board of directors, overseeing the BCSC's management, operations, and financial affairs

Our governance policy is on the BCSC website at www.bcsc.bc.ca (*About the Commission: Governance: Governance Policy)*. Except where noted in the policy, the board's governance practices meet the government's *Best Practice Guidelines-BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations* (2005, Board Resourcing and Development Office). More information about the BCSC governance policy, including biographies of each commissioner and members of the senior management team, is available on the BCSC website at www.bcsc.bc.ca (*About the Commission: Governance; Who We Are*).

Organizational structure



Key stakeholders

- The public—which relies on us to foster capital markets that contribute to the well being of British Columbia (BC)
- Investors—who seek to invest in fair and efficient securities markets
- Issuers—companies that rely on the capital markets to fund growth
- Securities firms—which advise investors and companies, and facilitate trades

- Other regulators—with which we enforce compliance and develop and implement policy initiatives through the Canadian Securities Administrators (CSA)
- The provincial government—to which we are accountable

The securities regulation landscape

We fulfill our statutory mandate to regulate BC capital markets in cooperation with other CSA jurisdictions. Regulating as part of a national system significantly affects how we conduct our work. It also influences how we consider and implement securities policy and practice in BC.

We also work within the passport system, part of the federal Provincial-Territorial Securities Initiative. This program is now fully in place among all jurisdictions in Canada except Ontario.

We rely on two SROs to perform key regulatory functions related to dealers, salespersons, and trading activity in Canadian equity markets:

- Investment Industry Regulatory Organization of Canada (IIROC), which regulates investment dealers and equities trading on Canadian marketplaces, including the Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSX-V), and alternative trading systems
- Mutual Fund Dealers Association of Canada (MFDA), which regulates mutual fund dealers

The BCSC leads regulatory oversight for the MFDA on behalf of CSA, subject to input from the other CSA jurisdictions. The Ontario Securities Commission performs the same role for IIROC.

The BCSC has recognized the TSX-V under the *Securities Act* and shares responsibility with the Alberta Securities Commission for its oversight. The BCSC has exempted the Toronto Stock Exchange, the Canadian National Stock Exchange, and the NASDAQ Stock Market Inc. from recognition. We rely on oversight by their principal regulators in other CSA jurisdictions.

BCSC core areas of operation

Compliance

Better investor protection results when issuers, and securities firms and their sales representatives registered under the *Securities Act*, understand and comply with their regulatory obligations. We achieve this by, in part, ensuring these organizations have effective compliance systems and controls in place.

We rely on the SROs to regulate their member firms. We oversee the SROs and directly regulate firms not members of an SRO. We also regulate companies and insiders.

Enforcement

Effective enforcement requires decisive action against misconduct. Decisive action depends on:

- Using a variety of sources, of information, including open channels for receiving tips; timely complaint reviews; and targeted surveillance
- Thorough investigation of suspected misconduct
- Resolution of cases through timely settlements, administrative decision, and, in cooperation with the Crown, criminal prosecutions, and, where appropriate, sanctions against wrongdoers

Our Enforcement division focuses on cases with a strong BC connection. When cases with national implications emerge involving a BC-based market participant, we usually take the enforcement lead. SROs generally deal directly with cases involving SRO member misconduct.

Investor education

Our goal is to educate investors so they can make informed investment decisions and protect their financial interests. We want investors to research confidently and assess potential investments critically before they invest. Research shows that many adults lack the knowledge and understanding they need to make sound investment decisions. For this reason, our Communications & Education division develops programs spanning all age groups from high school students to seniors living on fixed incomes.

BC is the only Canadian province to include mandatory financial life skills training in high schools. Since 2004, we have provided BC high school teachers with a comprehensive financial life skills education resource known as "The City: Financial Life Skills for Planning 10", which we completely updated and revised in 2009/2010. The resource is also available on-line in English and French in partnership with the Financial Consumer Agency of Canada. The BCSC provides free training to student teachers and to teacher groups across the province.

Our adult education programs target seniors, pre-retirees, and over-confident men in their fifties—three groups we know to be particularly vulnerable to investment fraud. Through our newly revised website, InvestRight.org, we offer tools and information to help investors avoid and report investment fraud and to help them understand risk and the basics of making informed investment choices. In addition, BCSC staff conduct province-wide outreach and seminars to engage ethnic communities and seniors groups.

Policy-making

Policy-making is one regulatory tool we use to protect investors and foster fair and competitive markets. We have the authority under the *Securities Act* to make rules. We also issue guidance to help market participants understand our requirements.

BCSC operating environment and capacity

Capital markets are complex and fast moving. In order to regulate capital markets effectively, we will acquire, understand, and act on intelligence from the markets we regulate. We will allocate our resources using a risk-based approach, paying more attention to high-risk individuals, firms, and issuers. We allocate resources and manage through:

- Strategic planning and comprehensive risk management
- A rigorous annual budgeting process and monthly budget variance reporting
- Strong project initiation and purchasing controls
- Succession planning and recruiting to maintain key competencies
- Ongoing professional development to meet evolving market developments

Two national initiatives are likely to require significant resources over the next several years. The first is the federal government's National Regulator Initiative to establish the Canadian Securities Regulatory Authority (CSRA) by 2012.

The second is the CSA initiative for Investment Technology (IT) Systems enhancement. This initiative involves the redevelopment and replacement of several national electronic filing systems. While the project scope and timing remain uncertain, the BCSC's participation in this initiative, once it is underway, will require a significant commitment of its resources.

Significant resources will also be committed to three areas necessary to enhance our regulatory capabilities:

- Expansion of market intelligence
- Enhancement of risk-based approaches to our regulatory operations
- Extension of our IT capabilities

Market intelligence capability

By market intelligence, we refer specifically to identifying, acquiring, and understanding information in order to detect, deter, and resolve market misconduct. High value market intelligence identifies matters that may have otherwise gone undetected, and detects issues earlier. Market intelligence gathering and analysis leads to specific policy, compliance, and enforcement outcomes.

In order to implement an effective market intelligence capability, we will build on our existing networks. We will enhance our staff's ability to detect scams by encouraging high value tips and by obtaining marketplace information and data from internal, public, and confidential sources. These measures, in combination with the right choice of policy, compliance, and enforcement tools, will improve the timeliness and effectiveness of our response to market misconduct.

Risk management capability

The BCSC has an event risk management process to identify and rate strategic risks to our mandate. Those risks assessed as most threatening receive broad management attention: many of our top risks have mitigation strategies described in this Service Plan.

The BCSC also has some methodologies to rate the relative risk to our mandate of specific market participants. We will develop further risk-based approaches to our regulatory operations in order to:

- Understand specific market participant risk trends
- Differentiate risk among like groups of market participants to identify which may merit the greatest regulatory attention
- Employ risk assessment data to manage resources
- Share ratings with high-risk market participants together with measures they may consider taking to lower their risk

We intend to strengthen our risk management capabilities by modeling the risks related to registrants, reporting issuers, and the exempt market. We describe this work further in Strategy 4.2: *Build risk-based approaches for critical regulatory operations*.

IT capability

As the BCSC expands its tools for compliance and enforcement, and as technology functionality expands each year, we need to make continual investments in IT systems to support our regulatory effectiveness.

On a local level, we have three large systems projects that are critical to building our capacity. The first is our document management system, which centralizes all commission records in one location. This is a key platform for launching more market intelligence analytics in the future. The second project is an enhanced exempt distribution reporting system that will enable more complete data collection for surveillance purposes. The third project is a case management system that will enable more efficient workflow processes and provide transparency into all case-related decisions taken at the BCSC.

Strategic context

The external environment continues to challenge us in how we set priorities and allocate resources.

In this plan, we identify three risks that we think pose the most significant threats to investor protection and market integrity for the planning period. Two of the risks we identify are new this year.

In addition to the demands of addressing these local concerns, we continue our commitment to CSA by participating in a wide range of national initiatives. This

includes proposals arising from the 2008 G20 Finance Minister's action plan and the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to the use of credit ratings, the over-the-counter derivatives market, securitization structure and disclosure, financial system risk, and hedge fund manager registration.

We are also allocating resources to the federal government's plan to establish the CSRA, in support of the BC government's participation in the planning of that initiative.

There are many other issues facing securities regulators everywhere – for example, how to address systemic risk and new market issues like the growth of alternative trading systems, high frequency trading, and dark pools. We will continue work addressing these issues with our CSA colleagues on a national level. However, in deciding priorities for the Service Plan, we chose to focus on those risks that pose significant risk to investors and markets, and that can be addressed by local action.

Under this plan, we will focus on three risks:
- Illegal distributions and fraud
- Non-compliance in the exempt market
- Inability to investigate market misconduct by traders in offshore secrecy jurisdictions

Strategic risks

Risk 1: Illegal distributions and fraud

Investors continue to lose their savings in high-profile investment frauds. They also fall victim to illegal distributions promoted and sold by either deliberately dishonest individuals or persons who solicit investors without regard to (or awareness of) securities rules.

Our objectives are to:
- Mitigate investor losses by disrupting frauds in progress
- Deter fraudulent activity
- Secure ill-gotten gains for future distribution to victims
- Prosecute wrongdoers before the Commission and in the criminal courts

To achieve those objectives, we:
- Issue investor alerts through the news media about active suspected frauds in progress
- Train financial industry employees about how to detect suspicious activity and to report it to us
- Train police about securities fraud
- Educate investors through our investor education website, InvestRight.org, and through advertising and seminars
- Issue temporary orders to immediately stop misconduct
- Identify and freeze cash and other assets of wrongdoers so the assets are available for distribution to victims by the courts or the Civil Forfeiture Office.

- Conduct administrative investigations, leading to hearings before the Commission and sanctions where appropriate
- Conduct criminal investigations and recommend charges to Crown Counsel for criminal prosecution

Next steps
In addition to continuing the initiatives described above, under this Plan, we will use enforcement and education tools to:
- Expand our capacity to conduct criminal investigations to refer more, and more complex, cases to Crown Counsel
- Build relationships in the broader community (including financial institutions and community groups) and engage local volunteers to identify and report suspicious activity promoted in their communities
- Augment our investor education initiatives by communicating in more languages

We describe our initiatives in the following chapter under the following headings:
- Goal 2: *Act decisively against misconduct*
  - Strategy 2.1: *Strengthen criminal investigation capability*
  - Strategy 2.2: *Expand and leverage community and inter-agency networks*
- Goal 3: *Educate investors*
  - Strategy 3.1: *Community outreach to reduce risk of affinity fraud*

Risk 2: Non-compliance in the exempt market

The "exempt market" comprises those selling and buying securities in circumstances where the usual prospectus and registration requirements do not apply, usually because the buyer is sophisticated in investment matters, is wealthy enough to withstand loss, or is a relative or friend of the seller.

The exempt market is extremely important to small business capital raising. It is where almost all start-up companies raise their capital until they are big enough to go public. Even after going public, listed companies, especially those in the junior market, continue to rely on the exempt market to raise capital.

Ensuring market integrity in the exempt market is vitally important, and challenging. Thousands of businesses and investors participate in it. No central agency provides oversight and there are few disclosure requirements. There is no real time trade reporting as is the case with exchange listed stocks. Investor risk increases when issuers do not comply with requirements.

Our objectives are to:
- Protect investors
- Foster market integrity
- Foster the efficient operation of the exempt market

To achieve those objectives, we:

- Review regulatory filings for opportunities to educate businesses about how to use the rules properly (leading sometimes to suspension of their financing activities until they come into compliance)
- Take enforcement action against those who will not comply with the rules, and publicize the results
- Educate investors about the risks of investing in the exempt market
- Avoid over-regulation. Unnecessary, costly, and cumbersome requirements are especially damaging to participants in the exempt markets.

Next steps

In addition to continuing the initiatives described above, under this plan, we will use compliance and enforcement tools to:

- Capture more information, in searchable form, relevant to exempt market compliance issues
- Broaden our networks for gathering, sharing, and analyzing information
- Increase compliance and enforcement resources focused on the exempt market

In the next chapter, we describe our plans to address the risks to investors posed by non-compliance in the exempt market under the following headings:

- Goal 1: *Promote a culture of compliance*
  - Strategy 1.1: *Use specialized tools to address exempt markets misconduct*
- Goal 2: *Act decisively against misconduct*
  - Strategy 2.4: *Build market intelligence systems capacity for the exempt market*

Risk 3: Inability to investigate market misconduct by traders in offshore secrecy jurisdictions

Foreign bank secrecy laws frustrate our investigations into trades made from offshore accounts when we suspect market misconduct, such as illegal insider trading or a market manipulation.

We have dealt with some cases through enforcement actions, but enforcement, by itself, is not a comprehensive solution for addressing the risk.

Our objectives are to ensure that:

- Securities from offshore accounts trade in BC only if the BC dealer has a reasonable basis to believe that it knows the beneficial owner of the securities being traded from the offshore account
- We are able to investigate trading activity by offshore accounts through BC dealers to the same extent, and in a similar time frame, as domestic trading activity

To achieve those objectives, we:

- Have imposed conditions of registration on BC dealers requiring them to have a reasonable basis to believe that it knows the identity of the beneficial owner when trading securities of issuers listed on the OTC Bulletin Board (OTCBB)
- Take enforcement action in appropriate cases

Next steps

We describe our plans to address the risks to investors posed by traders in offshore secrecy jurisdictions in the next chapter under the following heading:

- Goal 2: *Act decisively against misconduct*
  - Strategy 2.3: *Address inability to investigate market misconduct by traders in offshore secrecy jurisdictions*

Strategies by goal

We have the following goals:

1. Promote a culture of compliance
2. Act decisively against misconduct
3. Educate investors
4. Advance cost-effective regulation

We align each of the strategies outlined in the following pages with our four stated goals. The chart below illustrates how strategies described under each goal relate to risks discussed in the Strategic Context chapter.

Summary of risks and related strategies

	Risk 1: Illegal distributions and fraud	**Risk 2: Non-compliance in the exempt market**	**Risk 3: Market misconduct by traders in offshore secrecy jurisdictions**	**Goal-related**
Goal 1: Promote a culture of compliance		Strategy 1.1: *Use specialized tools to address exempt market misconduct*		
Goal 2: Act decisively against misconduct	Strategy 2.1: *Strengthen criminal investigation capability* Strategy 2.2: *Expand and leverage collective networks*	Strategy 2.4: *Build market intelligence systems capacity for the exempt market*	Strategy 2.3: *Address inability to investigate market misconduct by traders in offshore secrecy jurisdictions*	
Goal 3: Educate investors	Strategy 3.1: *Community outreach to reduce risk of affinity fraud*			
Goal 4: Advance cost-effective regulation				Strategy 4.1: *Tailoring venture issuer regulation* Strategy 4.2: *Build risk-based approaches for critical regulatory operations*

Goal 1: Promote a culture of compliance

Strategy 1.1: Use specialized tools to address exempt market misconduct
Lead: Corporate Finance

Strategy 1.1 addresses Risk 2: *Non-compliance in the exempt market*. Over the past year, we piloted a specialized compliance unit to investigate the use of exemptions and the quality of disclosure in the exempt market. In the coming year, we will make this unti permanent and add resources.

We will:

- Take prompt compliance action
- Increase the volume of compliance investigation, targeting higher risk distributions identified by our market intelligence work
- Build cases for enforcement
- Develop processes to align compliance and enforcement action to identify appropriate cases for fast-track enforcement work
- Seek more information from investors
- Review exempt filings to verify that parties receiving compensation are either registered and complying with their Know Your Client obligations, or comply with the conditions for operating in this market without registration

Goal 2: Act decisively against misconduct

Strategy 2.1: Strengthen criminal investigation capability
Lead: Enforcement

This strategy responds to Risk 1: *Illegal distributions and fraud*, with the goal of working closely with Crown counsel to pursue criminal charges related to illegal distributions and fraud where warranted. Criminal convictions bring public penalties that measurably assist in deterring serious misconduct in capital markets. Since 2007:

- 13 Reports to Crown Counsel have been prepared recommending charges under the quasi-criminal section of the *Securities Act* (s.155) and various sections of the *Criminal Code*
- 11 individuals have been charged with a total of 62 counts under section 155 of the *Securities Act*, which include fraud, failing to register as an advisor, failing to file a prospectus, making misrepresentations, and breach of order
- Five individuals have been charged with a total of 11 counts under the *Criminal Code*, which include fraud, attempted fraud, theft, obstructing justice, uttering threats, and breach of bail
- Convictions have been obtained in the case of five individuals who have, to date, received jail sentences, conditional release, probation, community service, a peace bond, and restitution

In the coming year, we will expand the resources committed to criminal investigations so that we can increase the number and complexity of cases referred to Crown.

Strategy 2.2: Expand and leverage community and inter-agency networks
Lead: Communications & Education and Enforcement

This strategy addresses Risk 1: *Illegal distributions and fraud*. Our market intelligence initiative is core to mitigating the risk of securities fraud by addressing frauds faster or with better chances of gathering good evidence and avoiding losses. Currently, we are drawing on several programs to broaden our market intelligence work. These include formal projects involving community "tipsters" and wider engagement with deposit taking financial institutions.

We will expand our work with volunteers in select BC communities to recognize and report suspicious activity promoted through investment seminars, advertising, and social media. We now have four Community Police offices with our "tipsters" program: Nanaimo, Kelowna, Kamloops, and Victoria. We have over 50 community volunteers and have received 10 tips to date. We provide relevant news and information to lead coordinators in each area as well as a six-month report with progress to date on the current status of the tips received.

We will initiate new relationships and expand existing ones with policing agencies and police training institutions to increase awareness of investment fraud. We intend to strengthen our retail banking network to provide us with high-quality leads on specific deals.

Strategy 2.3: Address inability to investigate market misconduct by traders in offshore secrecy jurisdictions
Lead: Capital Markets Regulation

This strategy responds to Risk 3: *Inability to investigate market misconduct by traders in offshore secrecy jurisdictions*. Bank secrecy laws and nominee account holders frustrate our investigations into insider trading and manipulative trading in offshore accounts.

We will:

- Conduct reviews to determine whether BC dealers are complying with the current conditions of registration relating to trading in OTCBB securities
- Consider new policies, rules, or conditions of registration, to ensure that:
  - Dealers comply with the requirement to have a reasonable belief that they know the identity of the beneficial owner of securities, whether listed on the OTCBB or other markets, traded from offshore accounts
  - We are able to investigate trading by offshore accounts in securities, listed on any market, through BC dealers to the same extent, and in a similar timeframe, as domestic trading activity

Strategy 2.4: Build market intelligence systems capacity for the exempt market
Lead: Corporate Finance

This strategy responds to Risk 2: *Non-compliance in the exempt market*. We will develop market intelligence systems that will aid selection of high-risk targets for our compliance and enforcement work in the exempt market.

We plan to track exempt market activity from the perspective of individual and groups of issuers, directors, officers, significant shareholders, other investors, promoters, and dealers.

In order to build this intelligence, we will:

- Upgrade our electronic filing system for exempt distribution reports to better utilize the information we collect and maintain
- Target first-time filings, recent incorporations, and unusual uses of exemptions to supplement the form information with further market intelligence, using our production powers where necessary
- Conduct other intelligence work to fill in crucial gaps in the knowledge we need to properly evaluate the risk inherent in market participants active in the exempt market

Goal 3: Educate investors

Strategy 3.1: Community outreach to reduce risk of affinity fraud
Lead: Communications & Education

This strategy specifically addresses Risk 1: *Illegal distributions and fraud*. Many of the recent Ponzi/affinity schemes in Canada have involved ethnic communities. These include: the Kim case in BC's South Korean community; the Badshah case in BC's South Asian community; the Weizhen Tang and MP Global Financial cases in Ontario's Chinese community; the Tzvi Erez case in Ontario's Jewish community; and, the Salim Damji case involving a $77 million loss amongst Toronto's Ismaili community.

According to the 2006 Canada Census population numbers, the Chinese population is 407,225, or 40.3 per cent of BC's visible minority population; and South Asians make up 262,290, or 25.9 per cent. We will focus most of our resources on these two communities, but not to the exclusion of other communities if partners and opportunities become available.

Over the last couple of years, we have undertaken extensive advertising, initiated research, and delivered InvestRight seminars to the Chinese community. We recently redesigned our InvestRight website to include a Chinese section with videos and brochures translated into Mandarin.

Over the coming year, the BCSC will strengthen and complement its existing investor education strategy with new initiatives designed to build trust within ethnic communities.

To this end, we will:

- Extend our current work with the South Asian and Chinese communities to develop a series of seminars aimed at seniors and pre-retirees to encourage identification and reporting of frauds or other misconduct or suspicious activity.
- Set up meetings with community leaders in the South Asian and Ismaili communities to find opportunities to deliver our InvestRight messages. Develop programs targeted at key ethnic communities based on staff meetings with Vancouver-based consulates.
- Expand our God's Fraud Squad (the popular name for two Fraser Valley pastors who help BC congregations recognize fraud) program to cover the entire province over the next three years and target three faith-based ethnic communities.

Goal 4: Advance cost-effective regulation

Strategy 4.1: Tailoring venture issuer regulation
Lead: Corporate Finance

Fast-growing companies, predominantly in their first 10 years of existence, create proportionately more new net employment in the broader market than long-established enterprises. A healthy venture issuer market, together with strong resource markets, has provided a catalyst for significant economic growth in British Columbia in recent years.

In the past year, the BCSC co-led a project with the Alberta Securities Commission to assess the feasibility of implementing a regime of regulation tailored to the needs of the venture market. As part of this project, we consulted with market participants about existing and proposed rules for venture issuers.

Using what we have learned from this work, we will assess whether it makes sense to continue to develop the regime. If so, we will publish a draft rule for comment in 2011 with a view to implementing the rule in 2012.

Strategy 4.2: Build risk-based approaches for critical regulatory operations
Lead: Executive Director's Office

To strengthen our risk management capability noted in the Organizational Overview chapter, we will develop a risk-based approach to our core regulatory operations. Higher risk participants should receive more scrutiny while low-risk participants should receive less.

We will employ four risk-based approaches in the coming year:

- *The Capital Markets Regulation directly regulated firm model*
  The objective of this approach is to detect significant compliance deficiencies or weaknesses and direct corrective action.
- *The Capital Markets Regulation registrant application model*
  The objective of this approach is to reduce risk of unqualified or dishonest registrants advising the public. This encompasses both firms and individuals.

- *Corporate Finance reporting issuer model to select issuers for continuous disclosure review and for assessing prospectus filings*
  The objective of this approach is to reduce the risk of issuers providing investors with incomplete, inaccurate, or dishonest information.
- *Corporate Finance model to select issuers filing exempt distribution reports for compliance review*
  The objective of this approach is to reduce the two-fold risk of issuers using exemptions not available to them, and providing disclosure to investors that does not comply with securities requirements.

On going performance measurements and targets by goal

This section describes the performance measurements by which we track our progress in achieving our goals through our operating activities. We track progress towards our goals using relevant, long-term measures so that stakeholders can assess our performance over time. We set targets for each measure on an individual basis that factor in a target's ability to reflect a compliant market, hold Commission staff accountable for stretch goals, and improve on current results. Further information about our performance measurements, including performance measurement systems and how we set targets, can be found on our public website at www.bcsc.bc.ca (About the Commission).

These measures are not tracked consistently across other CSA jurisdictions so we do not have benchmark comparisons that help gauge our relative performance to our peers.

Goal 1: Promote a culture of compliance

PERFORMANCE MEASURES		**TARGETS**			
	09/10 Actuals/ baseline	**10/11 Target[1]**	**11/12 Target**	**12/13 Target**	**13/14 Target**
1.1 Percentage of reviewed issuers that reduce deficiencies a) Improved disclosure subsequent to a continuous disclosure review	a) 100% [2] b) 97%	a) > 95% b) > 95%	a) > 95% b) set new baseline to reflect IFRS transition[3]	a) > 95% b) set new baseline to reflect IFRS transition[3]	a) > 95% b) Improve on 12/13 baseline
b) Improved disclosure to minimum standards	Our corporate finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an independent consultant to analyze the subsequent continuous disclosure of a statistically significant random sample of issuers that received comment letters from us during that year. The results of this review show the extent to which our detailed continuous disclosure review work motivated non-compliant issuers to improve their disclosure.				

PERFORMANCE MEASURES		TARGETS			
	09/10 Actuals/ baseline	**10/11 Target[1]**	**11/12 Target**	**12/13 Target**	**13/14 Target**
1.2 Percentage of randomly sampled mining issuers that meet the minimum standards for technical disclosure in: a) Filed disclosure (Annual information forms, News releases, Management discussion and analysis) b) Issuer websites	a) 61%[4] b) 50%	a) > 75% b) > 75%	a) > 80% b) > 75%	a) > 80% b) > 75%	a) > 80% b) > 75%
	BC is home to most Canadian mining issuers. We will randomly select from a list of BC-based mining issuers and analyze whether those issuers' most recent technical filings were compliant with NI 43-101 Standards of Disclosure for Mineral Projects. This review shows the extent to which a sample of BC-based mining issuers is compliant in specific areas of their technical disclosure.				
1.3 Average number of deficiencies per examination in Capital Markets Regulation	7.56 out of 49 categories[5]	7.2 out of 49 categories	Decrease deficiency average by 5% over 11/12	Create new measure	N/A
	Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using various indicators of risk, we risk rate our firms so that we can determine how frequently and how closely to examine their compliance. This statistic shows the average deficiencies found in complete exams performed over the period. Firms subjected to audits for cause are excluded from our analysis. We are exploring new measures for periods beyond 2011/12 to reflect new types of directly regulated firms subject to our oversight, such as exempt market dealers and investment fund managers.				

Notes: (1) Actual data for all targets will be included in the 10/11 Annual Report. (2) Based on a sample of 30 issuers. (3) Canada adopted international financial reporting standards (IFRS) on January 1, 2011 which changes the minimum standards. It will take two fiscal years for the baseline to reset; (4) Based on a sample of 40 issuers; (5) Based on 16 examinations.

Goal 2: Act decisively against misconduct

PERFORMANCE MEASURES			TARGETS		
	09/10 Actuals/ baseline	**10/11 Target**	**11/12 Target**	**12/13 Target**	**13/14 Target**
2.1 Average time to respond to misconduct with disruptive Action	Not measured	110 days	Decrease average by 10% over 10/11	Decrease average by 10% over 11/12	Decrease average by 10% over 12/13
	This measure focuses our efforts on early detection and shows our ability to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt this misconduct. We will track a specific number of intervention types and measure how long it takes us to implement the intervention from the opening of the complaint.				
2.2 Average life, in months, of cases resolved via settlement or enforcement decision	27.7[2]	41.5[3]	Set according to formula[4]	Set according to formula[4]	Set according to formula[4]
	We want to be transparent about the average time our administrative enforcement process takes. For the cases we close by settlement or a decision in the fiscal year, we measure the average number of months a case is open from when we first learn of the conduct to the case's completion by settlement or decision.				

Notes: (1) In fiscal 2010, we introduced a new program to seek out active illegal distributions. In our new measure, we track a specific number of intervention types and measure how many days it took us to implement the intervention from the opening of the complaint; (2) This actual is an average of 14 cases that closed that year, two of which closed in under 2 months. The average for the remaining 12 cases is 32.6 months; (3) This target is set based on the four cases in our enforcement work in progress projected to close by decision in the coming fiscal year; (4) We calculate the target for the enforcement steps outstanding based on a case average of actual case age and service target timeframes outstanding on each case.

Goal 3: Educate investors

PERFORMANCE MEASURES			TARGETS		
	09/10 Actuals/ baseline	**10/11 Target**	**11/12 Target**	**12/13 Target**	**13/14 Target**
3.1 Number of complaints and tips received as a result of InvestRight investor education and industry outreach programs	68	71	Increase 5% over 10/11	Increase 5% over 11/12	Increase 5% over 12/13
	Through our public awareness and outreach programs, we aim to increase the flow of complaints and information we receive about possible investment frauds or illegal activities. We track the number of enquiries, referrals, and complaints we receive from the public, media, and policing agencies such as the RCMP, IMET, and local police.				
3.2 Percentage of workshop participants who recall investor education messages of red flags	11%	14%	Increase 3% over 10/11	Increase 3% over 11/12	Increase 3% over 12/13
	We deliver investor education workshops to BC residents, primarily seniors. We hire a firm to survey seminar participants after each presentation, and a second time six months later, to measure the percentage of workshop participants who recall our investor education messages.				
3.3 Percentage of Canadian investors aware of provincial securities regulators	46%(1)	>45%	> 45%	> 45%	> 45%
	We aim to build awareness of the BCSC and our many investor education resources so that British Columbians will know where to turn and what to do when faced with a possible fraud or unsuitable investment opportunity. We collect data by asking awareness questions in each year's investor survey.				

Notes: (1) Actual from the October 2009 CSA Investor Index.

Goal 4: Cost-effective regulation

PERFORMANCE MEASURES			TARGETS		
	09/10 Actuals/ baseline	**10/11 Target**	**11/12 Target**	**12/13 Target**	**13/14 Target**
4.1 Average score on cost-effective regulation scorecard	88%	90%	> 90%	> 90%	> 90%
	To measure cost-effective regulation, we use a scorecard that tracks the important steps and outcomes in responding to market problems.				
4.2 Average approved project post-implementation score	83%	80%	> 80%	> 80%	> 80%
	We assess each local IT-enabled project at a predetermined time after the project's completion (as documented in the project proposal) and score the project's success relative to its proposed benefits.				

Summary financial outlook

Future-oriented financial information

We prepared the following information for business planning purposes. The information may not be appropriate for other purposes.

The effective date of our underlying assumptions is December 10, 2010. Our fiscal 2011 forecast, fiscal 2012 budget and fiscals 2013 and 2014 projections, reflect BCSC actual results to October 31, 2010.

Fiscal 2011 forecast assumptions reflect our planned actions given our judgment as to the most probable set of economic conditions. Fiscal 2012 budget and 2013 and 2014 projection assumptions reflect our planned actions for those periods given our judgment as to the most probable set of economic conditions, together with one or more hypotheses. The hypotheses are assumptions that are consistent with the purpose of the information, but are not necessarily the most likely to occur. Actual results achieved for the fiscal 2011 – 2014 periods will vary from the information presented and those variations may be material.

We have not included in our assumptions any costs associated with additional resources or expenses that may be required if we transition to become part of a National Regulator. The fiscal 2012 budget and fiscals 2013 and 2014 projections are likely to change materially should a transition occur.

The financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

Nature of Operations

We are the provincial crown corporation responsible for regulating BC capital market activity.

We do not receive transfers from government tax revenues. Instead, fees charged to securities market participants fund our operations. Revenues fluctuate with market activity while most of our costs are fixed. Salaries, benefits, and occupancy costs account for about 85% of operating expenses.

As a government agency, we are exempt from income taxes. We pay HST but receive a 100% rebate on taxable purchases.

BCSC does not operate or have an interest in any subsidiaries.

Financial outlook

We expect an operating surplus, excluding education fund transactions, of $2.6 million in fiscal 2011 (2010 – $1.2 million). The higher surplus is due primarily to the following factors:

- $0.5 million (3%) higher distribution filing revenue, resulting from increased capital market activity
- $1.0 million higher investment income allocated to operations due to higher returns on fixed income investments and changing our investment policy to allow investing in high quality corporate bonds
- $0.5 million (2%) higher operating expenses due primarily to increased staffing, training, and communication costs being only partly offset by lower legal consulting costs and lower depreciation

The following table summarizes our actual and projected results of operations and financial position, by year[1]:

Summarized Statements of Operations

(millions)	09/10 Actual	10/11 Forecast	11/12 Budget	12/13 Projection	13/14 Projection
OPERATIONS					
Revenue					
Filing fees					
Prospectus and other distributions	16.2	16.8	17.3	18.6	18.6
Registration	9.6	9.8	10.3	10.6	10.7
Financial filings	4.7	4.9	5.1	5.3	5.4
Other fees	0.2	0.2	0.3	0.2	0.2
	30.8	31.8	33.0	34.7	34.9
Other revenue					
Investment income	0.3	1.3	1.3	1.3	1.3
Total revenue	31.1	33.0	34.3	36.0	36.2
Expenses					
Salaries and benefits	23.1	23.6	25.1	26.3	27.1
Other operating expenses	6.9	6.8	8.2	8.4	8.4
Total expenses	29.9	30.4	33.3	34.8	35.5
Operating surplus for the year	**1.2**	**2.6**	**0.9**	**1.2**	**0.7**
EDUCATION RESERVE					
Revenue					
Investment income	-	-	0.1	0.1	-
Enforcement sanctions	0.3	0.4	0.3	0.3	0.3
	0.3	0.4	0.4	0.4	0.3
Disbursements	0.9	0.9	1.0	1.0	1.0
Education reserve deficit for the year	**(0.6)**	**(0.5)**	**(0.6)**	**(0.6)**	**(0.6)**
CONSOLIDATED SURPLUS FOR THE YEAR	**0.6**	**2.1**	**0.3**	**0.6**	**-**
SURPLUSES					
General	10.3	12.9	13.8	13.5	13.7
Fee stabilization reserve	15.0	15.0	15.0	16.5	17.0
Education reserve	3.1	2.5	1.9	1.3	0.7
	28.3	30.4	30.7	31.3	31.4
SUPPLEMENTARY INFORMATION					
Cash and short-term investments	18.5	21.0	21.0	21.7	22.3
Capital expenditures	0.3	0.5	1.9	0.8	0.8

[1] The financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

Operating revenues

About 95% of our operational funding comes from filing, registration, and application fees paid by market participants under the *Securities Act*. The remainder of our operational funding comes from investment income and enforcement cost recoveries, if any.

Fee revenue

Our fee model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

A large part of our fee revenue comes from fees paid by mutual funds to distribute securities and file financial statements, and fees paid by the five largest Canadian banks to register their representatives.

(millions)	09/10 Actual	10/11 Forecast	11/12 Budget	12/13 Projection	13/14 Projection
Revenue from fees	30.8	31.8	33.0	34.7	34.9
Fee revenue growth rate	1.2%	3.0%	3.8%	5.2%	0.6%

Each 1% change in revenues over the planning period (2012 – 2014) alters forecast revenues by about $1.0 million. We maintain a Fee Stabilization Reserve to ensure that temporary reductions in revenue do not immediately impair our ability to operate, or require reactive fee changes. Our projections reflect general surplus appropriations to the fee reserve of $1.5 million and $0.5 million in fiscal 2013 and 2014, respectively, to keep the fund balance at its policy mid-point.

We collect the following fees:

Source	Proportion of fee revenue Forecast 2011	Budget 2012
Public companies, private companies and mutual funds, to file disclosure documents	53%	53%
Firms and individuals, to register with us to sell or advise on securities	31%	31%
Public companies and mutual funds, to file annual and interim financial statements	15%	15%
Market participants, primarily to request *Securities Act* exemptions	1%	1%

Distribution fees
Distribution fee revenues vary depending on the number and size of securities offerings. The largest share of distribution fee revenue comes from prospectuses[2], exempt distribution reports[3] and annual information forms[4]. Issuers pay fees to file these documents. When gross sales under a prospectus and under an exempt offering exceed $7.5 million and $0.3 million, respectively, an additional fee, called a "percent of proceeds fee," may be payable.

Our revenue from distribution fees falls significantly during weaker markets because fees related to gross sales account for about half of distribution fee revenue.

More than half of distribution fees relate to mutual fund sales in BC. We receive the majority of revenue related to mutual fund sales in arrears, so distribution revenue changes lag market events.

We expect distribution revenue to increase $0.5 million (3%) in fiscal 2011, due primarily to higher fees related to exempt market and mutual fund distributions. We expect mutual fund sales activity to increase further, increasing distribution revenue a further 3% in fiscal 2012. We project a further 8% increase in fiscal 2013 but no growth in fiscal 2014.

Registration fees
Firms and individuals register with us to sell or advise on securities. Registration fee revenue has low volatility and has grown steadily over the last decade. We expect registration revenue to increase modestly in fiscal 2011. National Instrument 31-103 is extending our market oversight to additional firms and advisors. In fiscal 2012, we expect an increase in the number of firm registrations, increasing this revenue stream by 5%. We project growth of 2.5% in fiscal 2013 and 1% growth in fiscal 2014.

Financial filing fees
Companies and mutual funds (reporting issuers) pay a fee to file their financial statements, and they pay a higher fee if they file late. The reporting issuer population increases modestly most years.

We expect financial filing revenues to increase 4% in fiscal 2011, 3.5% in fiscal 2012, 4% in fiscal 2013 and a further 2% in fiscal 2014.

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[2] Companies and mutual funds must normally prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status, and management of the company or fund.
[3] Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) permit investors to have access to all information about the proposed transaction that could affect their purchase decision.
[4] Annual information forms give current details of the operations, financial status, and management of the company.

Other fees
Other fees are mostly exemption application filing fees and account for only a small proportion of fee revenue.

We expect a one-time increase in fiscal 2011 due to exemption applications related to the new registration categories previously discussed. Otherwise, we expect no growth over the planning period.

Investment income
Our prime investment objectives for surplus funds are capital preservation and sufficient liquidity so we can meet our expenditure commitments. We invest in highly liquid, high quality money market instruments, government securities and investment-grade corporate debt securities.

We expect investment income related to operations to increase $1.0 million (345%) in fiscal 2011 due primarily to significantly higher returns on fixed income investments and changing our investment policy to allow investing in high quality corporate bonds. We assume investment yields of 3.5% over the rest of the planning period.

Operating expenses
Salaries, benefits, and occupancy costs account for about 85% of our expenses.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual budget approved by the Board, monthly budget variance reporting to management, requiring Board approval of significant expenses, and continually improving our processes.

	09/10	10/11	11/12	12/13	13/14
(millions)	Actual	Forecast	Budget	Projection	Projection
Expenses, excluding education disbursements	29.9	30.4	33.3	34.8	35.5
Operating expense growth	0.5%	1.6%	9.5%	4.3%	2.1%

Salaries and benefits
Staffing costs account for about 75% of our operating expenses. We compete for professional staff with law and accounting firms, the securities industry, and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based salary increases and incentives. To retain and recruit staff and remain market competitive, we conduct salary surveys annually and make adjustments as appropriate.

We spend our salaries in four areas (overhead allocated proportionately):

Strategic Goal		Fiscal 2011
Goal 1	Promote a culture of compliance	37%
Goal 2	Act decisively against misconduct	37%
Goal 3	Educate investors	9%
Goal 4	Advance cost effective regulation	17%

We expect salary and benefit costs to increase 2.4% in 2011 based upon merit increases averaging 2.5% being partly offset by position vacancies.

Fiscal 2012 reflects a 6.5% increase in salaries and benefits expenses. The increase is a result of staff additions to respond to the strategic risks previously outlined in our service plan, and due to performance-based salary increases. Fiscal 2013 and 2014 project 2.5% annual, performance-based increases. During fiscal 2013, three seconded employees will return.

Rent

We have leased office space to November 2011 at an annual rent, net of sublease recoveries, of about $0.9 million.

On September 30, 2010, we signed an agreement in principle to extend our premise lease for an additional ten years, with a lease term ending November 30, 2021. Our approximate annual rent over the lease term is as follows:

December 1, 2011 - November 30, 2013	$1,390,000 per year
December 1, 2013 - November 30, 2015	$1,455,000 per year
December 1, 2015 - November 30, 2017	$1,540,000 per year
December 1, 2017 - November 30, 2019	$1,620,000 per year
December 1, 2019 - November 30, 2021	$1,700,000 per year

We also pay a proportionate share of the building's operating and maintenance costs, which we do not expect to grow faster than inflation over the planning period.

Professional services

We engage consultants when outsourcing is more cost-effective than performing the work ourselves. Professional service costs relate primarily to the following:

- Legal services to support enforcement actions
- Fees paid to IIROC for registration services delegated to them
- Our share of CSA project and management costs
- Legislative counsel services
- Interview and hearing transcription services
- Internal audit services

We expect professional fees to decrease $0.2 million (10%) in fiscal 2011 due to completing certain legal actions in fiscal 2010. Professional fees increase in fiscal 2012

primarily due to hiring consultants to develop new risk models for our Compliance and Examination groups, and due to modestly higher defence costs. We expect only inflationary growth in professional service costs over the remainder of the planning period.

Information management

We spend significant amounts on information systems and management annually to improve access to our services and information, and to increase our efficiency. Information management has three main components:

- Software licensing and maintenance fees
- Electronic information services and hardcopy materials
- Physical record scanning and storage costs

We do not expect the composition of our information management activities to change significantly in fiscal 2011. Hardware and software maintenance costs increase in fiscal 2012 primarily due to increased licensing costs and additional maintenance fees on software purchased in fiscal 2010. We expect (2%) inflationary growth over the balance of the planning period.

Depreciation and capital expenditures

We depreciate our leasehold improvements, fixtures, and information technology over their useful lives using the straight-line method. We estimate the useful lives of our assets to be:

- Information technology – four years
- Intangible assets (software) – four years
- Leasehold improvements – the remaining lease term to November, 2021
- Office furniture and equipment – 10 years

We expect depreciation to be $0.8 million in fiscal 2011 and $0.7 million in 2012. Depreciation will increase to $1.0 million in fiscal 2013, due to higher capital expenditures in fiscal 2012, and decrease to $0.9 million in fiscal 2014 as older assets become fully depreciated.

Our capital spending relates primarily to computer systems and applications. We reduced capital spending to $0.5 million in fiscal 2011 by deferring some capital improvements to future years. Capital additions will increase $1.3 million in fiscal 2012 due to upgrading software, replacing aging hardware, and office renovations. Significant projects planned for fiscal 2012 include network infrastructure upgrades, upgrading to Windows 7 and Office 2010 from Windows XP and Office 2003, and redesigning our enforcement case management, defaulting issuer list, and exempt distribution reporting systems. We project capital additions to average $0.8 million per year over the remainder of the planning period.

Other operating expenses

We expect other operating expenses (training, administration, external communications, travel, and telecommunications) to increase $0.2 million to $1.4 million in fiscal 2011,

due primarily to higher training costs. We budget other operating expenses to increase to $1.8 million (29%) in fiscal 2012 due primarily to higher training and policy publication costs. With the exception of activity-based expense changes, we expect all other expenses to increase at 2%, our estimate of the annual rate of inflation, over the rest of the planning period.

Debt

We have no debt.

Education reserve

Many British Columbians are not financially literate nor investment savvy. Knowing one's risk profile and understanding one's investments reduces the odds of falling victim to investment fraud. This makes education central to our mission of protecting investors.

We use Education reserve funds only to educate securities market participants and the public about investing, financial matters, or the operation and regulation of securities markets. We supplement education disbursements by absorbing indirect education costs—for example, staff salaries on education projects—in our operating budget.

Education revenue

We order administrative penalties and disgorgements[5] under the *Securities Act*. We also negotiate settlements, which sometimes include monetary sanctions. We appropriate these revenues to our education reserve. Enforcement sanctions, which depend on the timing and nature of enforcement actions, vary significantly between periods.

We mix education reserve funds with other funds for investment purposes, so we allocate a portion of investment income to the education reserve.

We only recognize in revenue sanctions we determine are collectible.

Collecting sanctions is difficult because respondents often have limited assets, have poor credit, or have left BC. To September 30, 2010, we collected $9.5 million (12%) of $79.9 million sanctioned. We pursue outstanding amounts vigorously. However, of the $70.4 million outstanding, only $0.1 million is likely collectible and accrued in our financial statements. About 84% of the $70.4 million outstanding relates to two cases.

Based on year-to-date results, we forecast fiscal 2011 receipts of $0.4 million. We reviewed previous years' receipts to estimate fiscal 2012, 2013 and 2014 revenues. We forecast no growth over the planning period.

Education expenses

We expect to disburse $0.9 million on education projects in fiscal 2011. Most of what we spend relates to education campaigns (e.g. radio advertising), distributing and

[5] Disgorgement attempts to return ill-gotten gains to victims. We allocate to the education reserve disgorgements collected and not claimed within three years of collection.

maintaining our financial planning course module (Planning 10) for grade 10 students, maintaining InvestRight.org, our investor education website.

We expect annual Education reserve disbursements of $1.0 million over the planning period.

We project the Education reserve fund balance to decline to $0.7 million over the planning period based on our revenue estimates and disbursement plans.

Risks and opportunities

Securities regulatory reform

The BC government supports the federal government's National Regulator Initiative. We are engaged in this process and providing resources as necessary. We expect the BCSC to remain a going concern while participating governments consider whether to implement a national regulatory structure.

Fee revenue

We fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

Interest rate sensitivity

Our investments are exposed to interest rate risk. The fair value of our fixed rate securities will fluctuate with changes in interest rates. Although the short-term nature of our cash and money market investments limits the impact of fair value fluctuations, our longer-term bonds and debentures will have greater interest rate sensitivity. Based on the September 30, 2010 composition of our investment portfolio, an immediate 1% increase in interest rates across the entire yield curve, with all other variables held constant, would result in a decrease in market value of approximately $1.5 million. In addition, future investment income earned on variable rate cash deposits and maturing fixed rate securities would be positively impacted by any interest rate increase. We do not expect interest rates to increase significantly in the next year. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator, bcIMC. Investment durations for the ST2 Money Market Fund, Short Term Bond Fund and the Canadian Universe Bond Fund were 0.3 of a year, 2.8 years and 6.7 years, respectively, at September 30, 2010.

Reliance on CDS Inc.

Under various agreements with the CSA that end on October 31, 2012, CDS Inc. (CDS) operates three national electronic filing systems:

- The System for Electronic Document Analysis and Retrieval (SEDAR)
- The System for Electronic Disclosure by Insiders (SEDI)
- The National Registration Database (NRD)

We collect about 90% of our fee revenue through SEDAR and NRD. CDS maintains a comprehensive business continuity plan for each system. However, should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

National electronic filing systems and operating agreements

CDS operates the SEDAR and SEDI national filing systems on behalf of the CSA under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des marchés financiers, together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Industry Regulatory Organization of Canada Inc. Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (shortfall). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (surplus) to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators share actual versus budgeted system operating cost (expense) variances.

The OSC is holding (September 30, 2010) $48.8 million in trust, on behalf of the CSA Principal Administrators. The funds are the national filing systems' accumulated surpluses and expenses variances and interest earned on those amounts to September 30, 2010. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

In fiscal 2010, the CSA began a national project to redevelop the national systems. To September 30, 2010, expenses related to the systems redevelopment project totalled $638,009.

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